

NASDAQ:MTRX Q2 2025 Earnings Call Transcript

Generated on 6/10/2026

Livia | Operator:

Good morning, and welcome to the Matrix Service Company conference call to discuss results for the second quarter of fiscal 2025. Currently, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. Instructions will be given at that time. As a reminder, this conference call is being recorded. I would now like to turn the conference over to today's host, Ms. Kelly Spite, Senior Director of Investor Relations for Matrix Service Company.

Kelly Spite | Senior Director of Investor Relations:

Thank you, Livia. Good morning, and welcome to Matrix Service Company's second quarter fiscal 2025 earnings call. Participants on today's call include John Hewitt, President and Chief Executive Officer, and Kevin Cavanaugh, Vice President and Chief Financial Officer. John will provide an overview of financial results and our longer-term growth strategy, and Kevin will then provide greater detail on the quarter, our balance sheet, and the outlook for the rest of the year. Following our prepared remarks, we will open up the call for questions. Presentation materials referred to during the webcast today can be found under Events and Presentations on the Investor Relations section of [MatrixServiceCompany.com](https://www.matrixservicecompany.com). As a reminder, on today's call, we may make various remarks about future expectations, plans, and prospects for Matrix Service Company that constitute forward-looking statements for the purposes of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by these forward-looking statements because of various factors, including those discussed in our most recent annual report on Form 10-K and in subsequent filings made by the company with the SEC. The forward-looking statements made today are effective only as of today. To the extent we utilize non-GAAP measures, reconciliations will be provided in various press releases, periodic SEC filings, and on our website. Finally, all comparisons today are for the same period of the prior year unless specifically stated. With respect to corporate access and investor marketing opportunities, you're invited to contact me through the Matrix Service Company Investor Relations website. Turning now to our safety moment. At Matrix, our purpose is to build a better future, improve quality of life, and create long-term value for our people, business partners, shareholders, and communities. by engineering, constructing, and maintaining energy and industrial infrastructure that improves the quality of life, not only for people in this country, but also around the world. Infrastructure that provides the energy needs to fuel our homes, transportation, and businesses, and serves as the building blocks for creation of clothing, medicine, technology, and leisure activities, to name just a few. But our purpose is an empty promise if we do not keep the people that touch our job sites and offices free from injury. We must execute work with a high degree of quality and, above all else, safely. Our culture of safety starts with the fact that we care about people's mental and physical health. It is what we expect, how we lead, and what ensures we can deliver on our purpose. On behalf of our leadership team, I want to thank our employees for your leadership and accountability to safely achieving our purpose. I will now turn the call over to Jacques.

John Hewitt | President and Chief Executive Officer:

Thank you, Kelly, and good morning, everyone. We continue to successfully execute on our diverse project portfolio and have continued to advance work on our backlog of large multi-year projects during the second quarter, a performance that culminated in strong organic revenue growth. We delivered revenue growth within both our storage and terminal solutions and utility and power infrastructure segments during the second quarter, as we continue to drive strong project execution across the organization. Having said that, I need to

make two key points about the quarter. First was the delay in the award of a major energy project expected in the second quarter that negatively impacted our book to bill. We continue to work towards completion of the contract negotiation and expect that to occur in our third quarter. Once completed, as we will be able to take this project into backlog, which with other anticipated awards will support a strong third quarter book to bill. Second, planned mobilization to site on one of our current major projects in backlog moved to the second half of the year. The project is on track with mobilization occurring now with plans to begin active construction before the end of the fiscal year. Combination of these events, while good for the business in the long run, has led us to lower our full year revenue forecast by approximately 5% at the midpoint of our guided range. Accordingly, we've revised our fiscal 2025 revenue guidance from a range of 900 to 950 to a range of 850 \$850 million to \$900 million. It is important to note that our long-term outlook for the business continues to strengthen. Our opportunity pipeline, which was \$5.7 billion at the end of the second quarter, has increased to \$7 billion through January of 2025. This provides further support for the long-term outlook for the business. Importantly, as our book projects mature, we expect our visibility on future revenues to improve, reducing the variability in our backlog to revenue conversion. Despite the slight reduction in fiscal year 2025 guidance, I want to remind our investors of several key points. First, we expect Matrix will generate organic revenue growth in the second half of fiscal 2025 of greater than 40% when compared to the second half of fiscal 2024. Second, because of this revenue growth, we expect a return to profitability in the second half of fiscal 2025 given improved fixed cost absorption, operating leverage, and margin realization. And third, we expect to deliver a full year book to bill of at or greater than 1-0 in spite of the softer bookings this past quarter. Our balance sheet and liquidity position was very strong exiting the second quarter, consistent with our disciplined approach to capital management. Turning now to an overview of current market conditions across our core energy and industrial infrastructure end markets, we firmly believe the current policy environment is supportive of accelerated permitting for large energy and industrial infrastructure projects, including those storage and terminal projects where Matrix is a market leader. Importantly, we have the ability to serve the full continuum of traditional upstream, midstream, and downstream businesses together with lower carbon energy platforms. Demand for LNG, NGL, and ammonia storage and terminal infrastructure remains very favorable. As of January, domestic LNG export capacity is on track to grow by 85%, more than 21 billion cubic feet per day by 2028. Notably, there is another 26 billion cubic feet per day of additional LNG export capacity that has been either approved by FERC or proposed but has yet to reach FID. Additionally, this more favorable regulatory climate positions matrix to capitalize on growth in power demand and generation over the coming years. Longer term, between 2020 and 2040, U.S. power demand is expected to increase by more than 55% according to IHS market. Our nation is on the precipice of a power generation deficit which is only growing larger given current consumption trends. There are multiple factors underpinning this increase in power demand from industrial and population growth to the expansion of cloud computing. Matrix possesses the expertise to not only build the generation infrastructure but also the fuel storage and delivery facilities due to our brand-leading cryogenic market position. We will play a critical role in this next phase of our nation's economic development. Overall, our nation's energy mix is expected to pull from a wide range of sources, including fossil and renewable fuels and longer-term nuclear. In particular, increasing natural gas demand will continue to play a central role in supporting the growth in global energy consumption creating a clear need for supply and storage infrastructure that goes with it. Looking ahead, more than \$2.3 trillion of domestic infrastructure investment is projected to occur between now and 2030. If Matrix wins a fraction of this investment spend, it will represent a transformational upward inflection in the demand for our business. As I said earlier, as of December 31 of 2024, Our pipeline stood at 5.7 billion projects where we have submitted or plan to submit bids, which gives us confidence in achieving a sustainable growth trajectory as we proceed into next year and beyond. This pipeline has since grown to more than 7 billion, primarily driven by LNG peak shaving opportunities where we hold a leading brand position. As a reminder, Many of the opportunities we are currently pursuing are expected to be bid and awarded for the next 12 to 18 months. Once awarded, many of these projects will reach completion over a multi-year period, providing long-term visibility into revenue. This does not include smaller capital projects and maintenance activities that lay the foundation for many parts of the business and play a key role in leveraging SG&A and construction overhead costs. Before turning the call over to Kevin, I want to take a moment to highlight and revisit our strategic vision for the business. In recent years, our business has created value for our key stakeholders, including our

shareholders, customers, partners, communities, and employees by focusing on five key strategic pillars. These pillars include our commitment to a culture of safety and performance excellence, expanding and evolving our capabilities to meet the performance requirements of our customers. bidding discipline and backlog growth, a focus on margin optimization through cost management and rationalization, and a returns-driven capital allocation strategy and balance sheet discipline. As you look out over the next three years, these pillars can be encapsulated within a strategy that we refer to as Win, Execute, Deliver. In application, this strategy represents the framework to which we will continue to build a profitable growth platform of scale within our niche engineering and construction verticals by remaining disciplined and focused on our pursuit, pricing, and contracting project work. Establishing market share in new vertical while retaining market leadership within current markets. Continuing our established track record of delivering projects on time, safely, and on budget with high quality. and delivering improved operating leverage to support strong profitability, cash generation, and disciplined capital deployment. In summary, halfway through fiscal 2025, we continue to advance our strategic priorities as we return to profitability. A commercial focus on large complex projects across the energy and industrial landscape position matrix to capitalize on what we expect will be an historic period for domestic infrastructure investment over the next decade. Our proven ability to service the full project lifecycle from engineering and fabrication to construction and maintenance provide customers with a turnkey solution that continues to drive high customer retention with approximately 90% of historical revenue derived from repeat customers. Looking ahead, we intend to pursue a combination of organic and complementary inorganic growth to build a specialty EMC platform of scale with high value energy and industrial infrastructure markets. consistent with our focus on long-term value creation for our shareholders. With that, I'll turn the call over to Kevin.

Kevin Cavanaugh | Vice President and Chief Financial Officer:

Thank you, John. On an overall basis, the second quarter went as we anticipated. Last quarter, we stated we expected revenue to increase over the next few quarters. That increase has commenced as our revenue grew to \$187.2 million in the second quarter, an increase of 7% over the prior year. This also represents a 13% increase over the first quarter of fiscal 2025. The growth is being driven by the storage internal solutions and utility and power infrastructure segments. We expect those segments to continue to drive strong revenue growth throughout the second half of fiscal 2025. Gross margin was 10.9 million or 5.8% in the second quarter compared to 10.6 million or 6% in the prior year period. Project execution was strong overall with both the utility and power infrastructure and storage and thermal solution segments leading the way. Gross margins continue to be impacted by the under-recovery of construction overhead costs, but the impact is decreasing as revenue ramps. Construction overhead resources have been structured to support the strong market demand and anticipated revenue growth while supporting continued high-quality project execution and efficient utilization of the cost structure. The quarterly impact was approximately 440 basis points in the current quarter, which is improved from the prior year period, which was over 600 basis points. We expect the negative impact to continue to decrease in the second half of fiscal 2025 as revenue increases. SG&A expenses were \$17.3 million in the second quarter and is in line with our normal run rate. We will continue to considerably manage our cost structure as we execute our growth strategy. The second quarter, the company had a net loss of \$5.5 million, or \$0.20 per share, compared to a net loss of \$2.9 million, or \$0.10 per share, in the prior year, which included a gain on the sale of the facility. Excluding the gain, the prior year adjusted net loss was \$4.9 million, or \$0.18 per share. Moving to the segments. Storage and thermal solutions, segment revenue increased 53% to 95.5 million in the second quarter compared to 62.4 million in the prior year due to increased volume of work, especially vessels and LNG storage. The gross margin was 7.6% in the second quarter compared to 2.9% last year. Both periods benefited from strong project execution The increase was driven by construction overhead recovery, which improved as a result of the significantly higher revenues. Prior year margins were negatively impacted by over 700 basis points from under recovery compared to approximately 300 basis points in the current period. As quarterly revenue continues to increase through the rest of the year, the company expects to achieve full recovery of construction overheads. In the utility and power infrastructure segment, revenue increased 52% to \$61.1 million in the second quarter,

compared to \$40.1 million last year, benefiting from higher volumes of work associated with LNG peak shaving projects, partially offset by decreases in power delivery work. An improved mix of work drove gross margin to 5.6% in the second quarter, compared to 3.5% last year. Similar to storage and thermal solutions, growth in revenue in the second half of fiscal 2025 should drive improved overhead recovery and gross margin performance. As expected, process and industrial facilities segment revenue decreased in the second quarter to 30.6 million compared to 71.3 million in the prior year, primarily due to the completion of a large renewable diesel project and lower revenue volumes for thermal vacuum chambers. Gross margin was 1.2% the second quarter compared to 9.4% last year. Gross margins decreased due to changes in the mix of work, including significantly less new construction revenue, as well as an increase in the under recovery of construction overhead costs due to lower revenues. The company believes this reduction is temporary given our strong backlog and opportunity funnel. Before we move away from operating results, There are a few high-level takeaways I want to review. First, revenue level is critical to our earnings, and growth has started in the second quarter continuing through the remainder of fiscal 2025. Second, project execution has been strong. Focus on project execution continues, and the margin opportunity within our backlog of 1.3 billion and our opportunity funnel continues to support a long-term consolidated gross margin target of 10 to 12%. Third, the company continues to proactively manage its cost structure in order to achieve improved leverage as revenue grows. Construction overhead recovery has been a significant issue. Improvement has started and will continue consistent with revenue growth. Leverage of SG&A as a percentage of revenue will also improve as revenue grows. Finally, the combination of these items will drive the improved performance toward our long-term financial targets we are seeking. Now let's discuss backlog, which stands at 1.3 billion as of December 31, 2024, and remains elevated on a historical basis. Project awards totaled 90.5 million in the second quarter, resulting in a book-to-bill ratio of 0.5 times for the quarter and a trailing 12-month book-to-bill ratio of 0.9 times. While the timing of project awards impacted the first half of fiscal 2025, We believe early third quarter award activity and the market environment provide for a strong second half of awards supportive of our goals of \$1 billion in fiscal 2025 project awards and a foot to bill above one. Moving to the balance sheet, net cash provided by operating activities during the first half of fiscal 2025 was \$45.5 million. This growth is primarily the result of payments for customers associated with active projects and backlog, which demonstrates the certainty of our backlog and provides a positive indicator for the future. This also increases our total liquidity of \$211.7 million. Liquidity is comprised of \$156.8 million of unrestricted cash and cash equivalents and \$54.9 million of borrowing availability under the credit facility. The company also has \$25 million of restricted cash support the facility and our debt position remains at zero we'll continue to proactively manage the balance sheet and have the financial strength and liquidity needed to support the positive revenue inflection as we progress through the remainder of fiscal 2025. we also utilize a disciplined approach to capital allocation one that seeks to maximize our return on invested capital over time while minimizing business risk This concludes our prepared remarks.

Operator:

We will now open for questions.

Livia | Operator:

Thank you. And as a reminder, to ask a question, you will need to press star 11 on your telephone and wait for your name to be announced. Please stand by while we compile the Q&A roster.

Operator:

And we have a question from Jean Ramirez with DA Davidson.

Livia | Operator:

Your line is now open.

Jean Ramirez | Analyst at DA Davidson:

Hi, good morning. Thank you for the time. With the guidance reduction, which business or business segments does the 50 million revenue adjustment reflect this push out?

Operator:

That was primarily in the storage and terminal pollution segment, I believe.

Jean Ramirez | Analyst at DA Davidson:

In terms of just knowing about this project, where in the process of the project development are you guys?

John Hewitt | President and Chief Executive Officer:

So the project was awarded, I believe, in the last fiscal year. We have been working on engineering, working through procurement, and we had anticipated mobilizing the site earlier than where we are now mobilizing the site. and uh but it's not an indication on project health um various factors that have you know come together both on the client side and our side you know it's where the scheduling scheduling is laying out for us to for us to mobilize the site and a lot of the heavy spend for these these larger projects come with the construction and so the movement of that mobilization into the back half of our fiscal year you know, pushes the pushes revenue out into succeeding years. So nothing projects, good shape, healthy clients, good backlogs. Good. It's just a timing issue of when when we finally decided to mobilize, mobilize the site.

Jean Ramirez | Analyst at DA Davidson:

Perfect. And just going back to the guidance, how confident are you guys in reaching profitability in the second half of 2025? In other words, do you expect any other work delays to create some sort of fluctuations in your revenue growth?

John Hewitt | President and Chief Executive Officer:

So I think we feel pretty good about the ability to grow or continue growing our revenue quarter over quarter as we move out in time. And as we grow that revenue, that'll support, as Kevin has said earlier in his remarks, will support absorption of overheads. And then there's a return to profitability. And so we feel pretty good about the ability of the organization to return to a profitable run rate within that half of the year.

Operator:

Thank you. And one last one for me.

Jean Ramirez | Analyst at DA Davidson:

The energy project that you guys expect to move to the third quarter of this fiscal year, how do you guys see your backlog growth? through the second half given that we went down from 1.4 billion to 1.3 and moving into fiscal 26, what do you guys expect to be the baseline?

John Hewitt | President and Chief Executive Officer:

Yeah, I think one thing is a couple things. So we talk about all the time that our book to bills quarter over quarter, isn't always a linear thing, right? Because we don't always control the award dynamics and timing from our clients, obviously. We have feedback from them during the sales and proposal process of how that's going to flow through their organizations. We do the best we can to try to handicap that. But, you know, like I said, we've said in the past, you could have a couple quarters where we're going to be below one, and then you can move into the next quarter because of where the timing is for awards. And that next quarter's book-to-bill could be a two. And so I think the book-to-bill ratio for us has to be looked on a long-term basis. We've got an exceptionally strong opportunity pipeline. As we noted here, by the end of January, it had climbed to over \$7 billion. A big chunk of that opportunity pipeline is right within where our strong branding position is in that marketplace and in cryogenic storage and facilities for a variety of energy sources. And so, you know, we feel we feel good about where we are in our ability to continue to win and book work. So that'd be one thing to, you know, we're 1.3 billion, you know, backlog versus 1.4, 1.4 and a half, six months ago, 1.3 is a pretty good backlog level for our business. And so I don't know what the historical picture looks like. But it's it's up there in and some of the high levels that we've had as an organization. So we've got strong backlog. We have a normal booking cadence every quarter of smaller capital projects and maintenance activity that books and burns on a regular basis. And we've got an exceptionally strong opportunity pipeline and work that's right in our wheelhouse. So I think our ability to maintain and build our backlog here as we move through subsequent quarters through this fiscal year and beyond is really, really good. And it's probably going to be only limited by how much work can we actually take on.

Jean Ramirez | Analyst at DA Davidson:

Got it. And just one last one for me. Yeah, based on what you just said, can you provide a little more color into the type of conversations you're having with your clients, I guess in context of the types of opportunities that the current environment is setting up for you guys?

John Hewitt | President and Chief Executive Officer:

I think our clients in general, especially our energy clients, are still good about the energy environment, the regulatory environment, the global demand for their products. And so I think the first half of the year was a little bit of probably an anomaly. I think people were, to some extent, were probably concerned about the change of administration and what that regulatory environment was going to look like coming into the new calendar year. So I'm, you know, while none of our clients have said specifically that, you know, the presidential election cycle was affecting their decision-making, but I think it's only natural for that to be one of their risk profiles or making decisions. But all that being said, I think our client base, the clients that make up a significant part of our opportunity pipeline feel positive about their businesses and positive about where they're planning to invest their capital.

Operator:

Appreciate it. Thank you so much.

Jean Ramirez | Analyst at DA Davidson:

I'll be back in a call.

Livia | Operator:

Thank you. Our next question, coming from the lineup, John Francis with Sedodian Company. Your line is now open.

John Francis | Analyst at Sedodian Company:

Good morning, John and Kevin. Thanks for taking the questions. I'd like to circle back to the deferred revenue. Just two points of clarification. It was a singular job, A, and, B, you expect that to be realized early on in fiscal 2026, or is it spread out maybe more so in the fiscal year?

John Hewitt | President and Chief Executive Officer:

I'm not sure we know the timing of that, John.

Operator:

I would say probably it's going to be spread into Q1 and Q2. And was that a singular job?

John Hewitt | President and Chief Executive Officer:

Yeah, I mean, we always, every quarter, have revenues moving around. Things move up, things move back. They have a tendency to sort of balance those things out. But if we look into the year at the significant things that are moving around, that job sort of highlights itself. And so from the perspective of the need for us to kind of relook at what our revenues are going to be, For the full year, that job, you know, kind of stood out. And so it's not going away. Job's not going away. It's just, like I said in prepared remarks, you know, when we get into the construction side of a lot of these projects, that's really where the big flow of revenue really starts to ramp up. And so, you know, the delay in our moving on site moves those revenues around. That's all. So good news, kind of good news, bad news thing.

John Francis | Analyst at Sedodian Company:

Understood. And regarding your expectations of returns of profitability in the second half, given the revenue landscape, is your comfort level more so in the fourth quarter than in the third?

Kevin Cavanaugh | Vice President and Chief Financial Officer:

Yeah, it definitely is more in the fourth quarter because, you know, what we've talked about is a ramp, right? So we have 13% growth here in the second quarter over the first quarter. You know, we're going to continue to ramp up. As we go through the year, it just doesn't always pop up in the third quarter. So fourth quarter is obviously going to be higher revenue of the two quarters. And so it's got more profit in it than the third quarter.

John Francis | Analyst at Sedodian Company:

Understood, Kevin. And I believe in your prepared remarks, you still suggested optimism to have a close margin profile in that 10% to 12% range. I'm just curious, on the new jobs written, are you seeing any better margins in, say, storage and weaker margins in process? Is there any disconnect relative to some of the historical bandwidths as far as the gross margin profiles are concerned?

Operator:

So my view there is that the demand for our services

John Hewitt | President and Chief Executive Officer:

and the size of the projects, which limits our competition, and the amount of spending that we think our clients are going to be looking to do to take advantage of their markets is going to allow us to maintain a very strong margin profile in our projects. And so I think we're entering a market where our ability to win the right job with the right

Operator:

financial profile is improving. Understood. That's good news, John.

John Francis | Analyst at Sedodian Company:

You talked about the opportunity pipeline jumping into quarter to \$7 billion from 5.7 at the end of last quarter. I'm just curious, are these a few large jobs that are being built into the pipeline, or is it a plethora of smaller jobs? Can you maybe provide some of the color that caused such an attractive increase?

John Hewitt | President and Chief Executive Officer:

Yeah, I don't, you know, so we've got, you know, projects moving in and out of that pipeline, you know, on a very regular basis. Either we might have bid them and lost them or a client might have put it off or a job could be canceled. But overall, the trend has been steady to up. The big change, I think, from what we saw from Q2 to Q3 was the addition of more LNG peak shaving kind of projects. and that which we've you know we've got a very strong market position in here domestic domestically and um and i'm sure there's some some other smaller kind of projects mixed in with that um you know whether they be ammonia work or you know we're starting to see some resurgence in the in the mining space uh we're certainly seeing some activity uh uh start to uh raise its head around power generation opportunities, whether that's the installation of power generation equipment or fueling and storage associated with that. So I think it's a pretty big mix, but I would say probably the bigger projects are those that are tied into LNG to some extent.

John Francis | Analyst at Sedodian Company:

Got it, got it. And one last question, because you mentioned this often enough on the conference call, so I'm always curious to hear your updated thoughts. You always talk about inorganic growth opportunities sometime in the future. I'm wondering if you could put maybe a timeline to that and what kind of targets you'd think about, just maybe a little bit more color on inorganic growth opportunities.

Operator:

Yeah, I mean, we've also said that... Go ahead.

John Hewitt | President and Chief Executive Officer:

Yeah. So we've also said that we've been, we are principally focused on our return to profitability, return to continue to book work, to drive a strong backlog, to get to the run rate that's important for our business. On the top line, it's going to drive everything below it. And so that's been our principal focus. I think what we see going on in the markets, our ability to add that strength into our business, both from a projecting and engineering capabilities is important. While we work all over the country and we work across both union and non-union markets, the ability for us to strengthen regions of the country where we see a lot of investment would be also an important part of that. Today, I'm not really in a position to give you specifics on what we're exactly looking for, but at a high level, I think where we see the markets going and what's good to continue to strengthen our business and to strengthen our position as a specialized E&C provider of services and to take advantage of infrastructure spending, both from an energy power and industrial infrastructure basis, I think there is a lot of opportunity there for us to play a key role. So that's maybe didn't totally answer your question, but that's where my head's at.

John Francis | Analyst at Sedodian Company:

I realize it's hard to do because it's in the future, but I just wanted to hear some updated thoughts. Thank you, sir.

Livia | Operator:

Thank you. And as a reminder, to ask a question, please press star 11 on your telephone. I'm not showing any further questions in the queue at this time. I will now turn the call back over to Kelly for any closing remarks.

Kelly Spite | Senior Director of Investor Relations:

Thank you. As a reminder, if you'd like to have a conversation with management, please contact me through Matrix Service Company Investor Relations website. You may also sign up to receive MTRX news by scanning the QR code on your screen. Thank you for your time.

Operator:

This concludes today's conference call. Thank you for your participation and you may now disconnect.